

Attachment B

- 1) **Provision of Collocation on Just, Reasonable and Nondiscriminatory Terms** - The Company provided, on terms and conditions that are just, reasonable, and nondiscriminatory, any technically feasible methods of obtaining interconnection or access to Unbundled Network Elements (UNEs) at a particular point upon a request by a telecommunications carrier. In some cases, the Company over or under billed collocation charges to unaffiliated telecommunications carriers, which may be relevant to the reasonableness of the Company's provision of collocation in certain instances. During the year ended December 31, 2001 ("Evaluation Period"), certain billings to unaffiliated carriers differed from the contracted or tariffed rate, and in some cases the Company did not bill unaffiliated telecommunications carriers or its affiliates on a timely basis. In October 2001, the Company implemented additional processes and controls to assure accurate billing of collocation services.
- 2) **Previously Successful Methods of Obtaining Interconnection** - The Company did not deny any requests for interconnection or access to UNEs where the requesting carrier alleged that either the Company or another local exchange carrier had successfully deployed the arrangement. If such representation and deployment had occurred concerning a particular collocation arrangement in any incumbent LEC premises, the Company would have accepted such deployment as a rebuttable presumption that the arrangement was technically feasible, subject to validation of whether or not the arrangement was technically feasible at the point in the Company network where it was requested.
- 3) **Collocation Denials on the Basis of Space or Technical Reasons** - In cases where physical collocation of equipment necessary for interconnection or access to UNEs was not practical for technical reasons or because of space limitations, the Company offered virtual collocation where technically feasible. There were three virtual collocation requests denied on the basis of space limitations, and the company offered an alternative amount of space in each of these instances. No support was filed with the state commissions for these virtual collocation denials because the FCC's floor plan filing requirements relate to physical collocation requests, no dispute was raised at the state commission, and the state commission did not request support. If it were necessary to deny physical collocation for technical reasons or because of space limitations, the Company offered (through letters to the industry explaining the collocation procedures and via other methods) virtual or such other methods of collocation that are practical and feasible.

For collocation denials on the basis that physical collocation was not practical because of space limitations, the Company demonstrated to the state commissions in

most states that collocation was not practical by submitting (subject to protective order) detailed floor plans of premises where the Company made such denials and claimed that physical collocation space was exhausted. The submitted floor plans showed the space, if any, that the Company or its affiliates had reserved for their own future use and the uses for which space had been reserved and the length of time of each reservation. In some instances, the Company did not submit floor plans to the state commissions because no dispute was raised and the state commission did not request support. During the second quarter of 2002, the Company revised its 13-state policy to require floor plans be submitted, within a reasonable period of time after denial, to state commissions in all instances of space denials for physical collocation (where no alternative requested in the CLEC's application could be met because of space limitation) whether or not a state commission requires floor plans to be filed or a dispute has been raised at the state commission, unless a current floor plan already has been submitted.

There were no denials of physical collocation requests on the basis of technical infeasibility during the Evaluation Period. For denials on the basis that collocation was not practical for technical reasons, the Company would have submitted evidence if the requesting carrier had contested that determination before the state commission, or the state commission otherwise had requested the submission of such evidence. During 2002, the Company decided to routinely submit evidence to the state commission in instances where a requesting carrier's collocation application is denied for technical reasons. This decision is reflected in methods and procedures to be put in place by the Company during the third quarter of 2002.

- 4) **Touring of Full Premises** - In cases where space for physical collocation was not available, the Company provided the opportunity for requesting carriers to tour the entire premises in question, not just the area in which space was denied, without charge, within ten days of the requesting carrier's receipt of the denial of space.
- 5) **Access to Collocation Space During Construction** - The Company allowed collocators access to their physical collocation spaces during construction.
- 6) **Interstate Tariff** - The Company provided expanded interconnection service pursuant to interstate tariff.
- 7) **Availability of Collocation Space** - Upon request, the Company was prepared to submit to requesting carriers, within ten days of the submission of the request (unless state commissions allowed longer intervals due to volume of requests), a report describing in detail the space that is available for collocation in a particular Company premises. Such reports would specify the amount of collocation space available at each requested premises, the number of collocators, any modifications in the use of the space since the last report, and also included measures that the Company is taking to make additional space available for collocation. However, no such requests for space availability reports were submitted by carriers to the Company.

- 8) **Internet Posting of Full Premises** – Title 47 CFR 51.321(h) requires the Company to maintain a publicly available document, posted for viewing on the ILEC's publicly available Internet site, indicating all premises that are full, and to update such a document within ten days of the date at which a premises runs out of physical collocation space. For the four premises that became exhausted during the Evaluation Period, the Company did not timely post updates to the Internet site because these exhausts were prior to revised methods and procedures put in place by the Company in May 2001. No late postings subsequently occurred from May 2001 through December 2001. In addition, in certain instances, the Company did not remove premises from the Internet site in a timely manner after physical collocation space became available. During 2002, the Company revised and strengthened its policy on removing premises from the Internet site in a timely manner, and subsequently put in place methods and procedures reflecting this policy during the third quarter of 2002.
- 9) **Removal of Obsolete Unused Equipment** - The Company was prepared to remove, upon reasonable request by a telecommunications carrier or upon the order of a state commission, obsolete unused equipment from its premises to increase the amount of space available for collocation. There were no requests for removal of obsolete, unused equipment received during the Evaluation Period.
- 10) **Collocation of Equipment that is Necessary to Interconnection** - The Company permitted the collocation and use of any equipment necessary for interconnection or access to UNEs. Only one equipment-related denial, related to seven applications submitted by one CLEC, was made during the Evaluation Period on the basis that the fiber termination panel was not equipment necessary for interconnection or access to UNEs.
- 11) **Collocation Denials of Equipment on the Basis that the Requested Collocation of Equipment is not within the Scope of Section 251(c)(6)** - During the Evaluation Period, the Company objected to collocation of a fiber termination panel by a requesting telecommunications carrier for the purposes within the scope of Section 251(c)(6) of the Telecommunications Act of 1996. The carrier filed a complaint with the state commission, and the Company filed evidence supporting its position subsequent to the Evaluation Period. Prior to the Evaluation Period, the Company did object to the placement of a stand-alone circuit switch, which was specifically excluded from collocation requirements per Part 51.323(c) of Title 47 of the Code of Federal Regulations as established and more fully described in the FCC's orders. The Company has filed evidence proving that collocation of such equipment was not within the scope of the requirements of section 251(c)(6). The matter is currently pending before the state commission.
- 12) **Collocation Denials of Equipment on the Basis of Non-Discriminatory Safety or Engineering Standards** - The Company did not object to the collocation of equipment on the grounds that the equipment did not comply with safety or

engineering standards that are more stringent than the safety or engineering standards that the Company applied to its own equipment.

- 13) **Collocation Denials of Equipment on the Basis of Performance Standards** - The Company did not object to the collocation of equipment on the grounds that the equipment failed to comply with Network Equipment and Building Specifications Performance Standards or any other performance standards.
- 14) **Collocation Denials of Equipment on the Basis of Safety Standards** - The Company did not deny collocation of a telecommunications carrier's equipment on the grounds that the equipment did not comply with safety standards.
- 15) **Fiber Interconnection Points** - The Company provided interconnection point or points, physically accessible by both the Company and requesting carriers, at which the fiber optic cable carrying an interconnector's circuits could enter the Company's premises, and the Company designated interconnection points as close as reasonably possible to the Company's premises.
- 16) **Two Fiber Entry Points** - The Company provided at least two interconnection points at which the fiber optic cable carrying an interconnector's circuits could enter the Company's premises at each Company premises at which there were at least two entry points for the Company's cable facilities, and at which there was space available for new facilities in at least two of those entry points.
- 17) **Copper or Coaxial Cable Interconnection** - The Company provided for interconnection of copper or coaxial cable, if such interconnection was first approved by the state commission.
- 18) **Microwave Transmission Facilities** - The Company permitted physical collocation of microwave transmission facilities, subject to technical feasibility and space availability. No such requests were received during the Evaluation Period, but the Company continued to permit the collocation of these facilities placed prior to the Evaluation Period.
- 19) **Provision of Virtual Collocation on Just, Reasonable and Nondiscriminatory Terms** - When virtual collocation was provided, the Company provided for the installation (normally, the collocater installed its own equipment), maintenance, and repair of the collocated equipment which, at a minimum, resulted in any installation, maintenance, and repair being performed within the same time periods and with failure rates that are no greater than those that apply to the performance of similar functions for comparable equipment of the Company itself or its Advanced Services affiliates.
- 20) **Provision of Collocation Space on First-Come, First-Served Basis** - The Company made space available to requesting telecommunications carriers, within or on its premises, on a first-come, first-served basis, provided, however, that the Company

was not required to lease or construct additional space to provide for physical collocation when existing space was exhausted.

- 21) **Contiguous Space** - The Company, to the extent possible, made contiguous space available to requesting telecommunications carriers that sought to expand their existing collocation space.
- 22) **Renovations or New Construction** - When renovations of existing facilities were planned or when new facilities were constructed or leased, the Company took into account reasonably projected demand for collocation of equipment.
- 23) **Reservation of Floor Space** - The Company retained a limited amount of floor space for its own specific future uses, but did not reserve space for future use for itself or for its affiliates on terms more favorable than those that were applied to other telecommunications carriers seeking to reserve collocation space for their own future use.
- 24) **Relinquishing Space for Virtual Collocation** - The Company relinquished space held for future use before denying a request for virtual collocation on the grounds of space limitations.
- 25) **Warehousing of Collocation Space** - The Company implemented a policy regarding the imposition of reasonable restrictions on the warehousing of unused space by collocating telecommunications carriers, but did not set maximum space limitations applicable to such carriers unless the Company proved to the state commission that space constraints made such restrictions necessary.
- 26) **Space Assignments in a Just, Reasonable, and Nondiscriminatory Manner** - The Company provided space for the collocation of equipment necessary for interconnection or access to UNEs in a just, reasonable, and nondiscriminatory manner. The Company allowed each carrier to submit space preferences prior to assigning physical collocation space to each carrier; however, no such preferences were received. The Company's space assignment policies and practices do not materially increase a requesting carrier's collocation costs, do not materially delay a requesting carrier occupation and use of the Company's premises, do not impair the quality of service or impose other limitations on the service a requesting carrier wishes to offer, and do not reduce unreasonably the total space available for physical collocation or preclude unreasonably physical collocation within the Company's premises.
- 27) **Transmission Facilities** - The Company permitted collocating telecommunications carriers to collocate equipment and connect such equipment to unbundled network transmission elements obtained from the Company, and did not require such telecommunications carriers to bring their own transmission facilities to the Company's premises in which they seek to collocate equipment.

- 28) **Connections Between Telecommunications Carriers** - The Company permitted collocating telecommunications carriers to interconnect their networks with those of other collocating telecommunications carriers at the Company's premises and to connect their collocated equipment to the collocated equipment of other telecommunications carriers within the same premises provided that the collocated equipment was also used for interconnection with the Company or for access to the Company's UNEs.
- 29) **Providing Connections Between Telecommunications Carriers** - The Company provided the connection between the equipment in the collocated spaces of two or more telecommunications carriers and permitted one or more of the collocating parties to provide this connection for themselves. Where technically feasible, the Company provided this connection using copper, dark fiber, lit fiber, or other transmission medium, as requested by the collocating telecommunications carrier.
- 30) **Security Arrangements** - The Company required reasonable security arrangements to protect its equipment and ensure network reliability but only imposed security arrangements expressly allowed by the FCC or that were only as stringent as the security arrangements that the Company maintained at its own premises for its own employees or authorized contractors. The Company did not impose discriminatory security requirements that result in increased collocation costs without the associated benefit of providing necessary protection of the Company's equipment.
- 31) **Access to Collocated Equipment** - The Company allowed collocating parties to access their physically collocated equipment 24 hours a day, seven days a week, without requiring either a security escort of any kind or delaying a telecommunications carrier's employees' entry into the Company's premises. However, for a short period of time following the September 11, 2001 terrorists attacks, the Company required security escorts on its premises.
- 32) **Security Training** - The Company required collocating carriers to pay only for the least expensive, effective security option that is viable for the physical collocation space assigned. The Company required collocating telecommunications carriers' employees and employees of the Company's collocating affiliates to undergo the same level of security training or its equivalent that the Company's own employees or third party contractors providing similar functions were required to undergo; however, the Company did not require telecommunications carriers' employees or the employees of the Company's affiliates to receive such training from the Company itself and provided information to the telecommunications carriers on the specific type of training required so the telecommunications carriers' employees could conduct their own training.
- 33) **Use of Separate Space** - The Company restricted physical collocation to space separated from the space housing the Company's equipment only when legitimate security concerns or operational constraints unrelated to the Company's or its affiliates' or subsidiaries' competitive concerns warranted such separation, physical

collocation space assigned to an affiliate or subsidiary of the Company was separated from space housing the Company's equipment, the separated space was available in the same time frame or less than non-separated space, the cost of the separated space to the requesting carrier was not materially higher than the cost of non-separated space, and the separated space was comparable from a technical and engineering standpoint to non-separated space.

- 34) **Use of Central or Separate Entrance** – The Company required the employees and contractors of collocating carriers to use a central or separate entrance to the Company's building only when the Company also required that the employees or contractors of the Company's affiliates and subsidiaries be subject to the same restriction.
- 35) **Construction of a Separate Entrance** – The Company required the construction of a separate entrance to access physical collocation space only when the construction of the separate entrance was technically feasible, legitimate security concerns or operational constraints unrelated to the Company's or any of its affiliates' or subsidiaries' competitive concerns warranted such separation, would not artificially delay collocation provisioning, and would not materially increase the requesting carriers' costs.
- 36) **Approval of Subcontractors** - The Company permitted collocating telecommunications carriers to subcontract the construction of physical collocation arrangements with contractors approved by the Company. The Company did not unreasonably withhold approval of any contractors, and approval by the Company has been based on the same process and criteria used in approving contractors for its own purposes.
- 37) **Offering of Shared Cage Collocation** - The Company offered shared cage collocation arrangements as part of its physical collocation offering. No such requests were received during the Evaluation Period.
- 38) **Site Preparation for Shared Cage Collocation** - In making shared cage arrangements available, the Company did not increase the cost of site preparation or non-recurring charges above the cost for provisioning such a cage of similar dimensions and material to a single collocating party.
- 39) **Allocation of Site Preparation Costs for Shared Cage Collocation** - The Company procedures prorated the charge for site conditioning and preparation undertaken to construct the shared collocation cage or condition the space for collocation use, regardless of how many carriers actually collocate in that cage, by determining the total charge for site preparation and allocating that charge to a collocating carrier based on the percentage of the total space utilized by that carrier.
- 40) **Shared Collocation in Single-Bay Increments** - The Company made shared collocation space available in single-bay increments or their equivalent so that a

telecommunications carrier could purchase space in increments small enough to collocate a single rack, or bay, of equipment.

- 41) **Cageless Collocation** - The Company offered cageless collocation as part of its physical collocation offering. The Company allowed telecommunications carriers to collocate without requiring the construction of a cage or similar structure, and the Company permitted collocating carriers to have direct access to their equipment.
- 42) **Direct Connections** - The Company did not require telecommunications carriers to use an intermediate interconnection arrangement (i.e., a point of termination frame or bay) in lieu of direct connection to its network if technically feasible.
- 43) **Cageless Collocation in Single-Bay Increments** - The Company made cageless collocation space available in single-bay increments so that telecommunications carriers could purchase space in increments small enough to collocate a single rack, or bay, of equipment.
- 44) **Offering of Adjacent Space Collocation** - The Company offered adjacent space collocation as part of its physical collocation offering. The Company made available, where space was legitimately exhausted in a particular Company structure, collocation in adjacent controlled environmental vaults or similar structures, subject only to space availability on the ILEC's adjacent land, technical feasibility, and reasonable safety and maintenance requirements.
- 45) **Construction of Adjacent Space Collocation** - The Company did not receive requests for adjacent space collocation. The Company's policy is to provide the option for telecommunications carriers to construct or otherwise procure such an adjacent structure, if space for physical collocation is exhausted within the ILEC structural premises, subject only to space availability on the ILEC's adjacent land, technical feasibility, and reasonable safety and maintenance requirements.
- 46) **Provision of Adjacent Space Collocation on Just, Reasonable, and Nondiscriminatory Terms** - The Company did not receive requests for adjacent space collocation. The Company's policy is to provide power and physical collocation services and facilities as it would to its own similar structures, subject to the same nondiscrimination requirements as applicable to any other physical collocation arrangement.
- 47) **Placement of Equipment in Adjacent Space** - The Company did not receive requests for adjacent space collocation. The Company's policy is to permit the requesting carrier to place its own appropriate equipment or facilities, including, but not limited to, copper cables, coaxial cables, fiber cables, and appropriate telecommunications equipment, in adjacent facilities constructed by the Company, the requesting carrier, or a third party.

- 48) **Physical Collocation in Previously Exhausted Structures** – The Company is not aware of any carrier that is collocated in adjacent facilities. If a carrier collocates in an adjacent facility in the future and physical collocation space becomes available in a previously exhausted adjacent Company structure, the Company would not require a carrier to move, or prohibit a carrier from moving, a collocation arrangement into that structure. Instead, the Company would continue to allow the carrier to collocate in any adjacent controlled environmental vault, controlled environmental hut, or similar structure that the carrier has constructed or otherwise procured.
- 49) **Application Acceptance or Denial** – Except where a state commission has affirmatively established different deadlines for accepting or denying a collocation application, the Company has, in most cases, informed a requesting carrier within 8 business days (roughly 11 calendar days) whether its physical collocation space request can be accommodated. In certain instances the Company did not provide such notification within the appropriate timeline. During the Evaluation Period, the Company centralized operations on a 13 state basis, implemented new procedures and strengthened existing processes to ensure timely responses. The Company permitted a requesting carrier that resubmitted a revised application to cure any deficiencies in an application for physical collocation within ten days after being informed of them while retaining its position within any collocation queue that the Company maintained.
- 50) **Completion of Physical Collocation Arrangements** – Unless the state commissions set different intervals, the Company completed physical collocation arrangements during the Evaluation Period within the intervals mandated by the *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98 (FCC 00-297)*, 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order (DA 00-2528)*, released November 7, 2000.
- 51) **Restrictions on Shared Collocation Cages** - The Company did not place unreasonable restrictions on a telecommunications carriers' use of shared collocation cages.
- 52) **Ordering UNEs in Shared Collocation Cages** - The Company did not receive requests for shared cage collocation arrangements. The Company's policy is that if two or more telecommunications carriers who have interconnection agreements with the Company utilize a shared collocation arrangement, that the Company would permit each telecommunications carrier to order UNEs and to provision service from that shared collocation space, regardless of which of the telecommunications carriers was the original collocater

- 53) **Access to Basic Facilities** - The Company provided telecommunications carriers reasonable access to basic facilities such as restroom facilities and parking at the Company's premises.
- 54) **Allocation of Collocation Charges** - The Company allocated space preparation, security measures, and other collocation charges on a pro-rated basis so that the first collocater, in a particular Company premises, was not responsible for the entire cost of site preparation.
- 55) **Restrictions on the Processing of Collocation Applications** - The Company did not impose unreasonable restrictions on the time period within which it would consider applications for collocation space. Specifically, the Company did not refuse to process an application for collocation space submitted by a telecommunications carrier or submitted by the Company's affiliate(s) while that telecommunications carrier's state certification was pending, or before the telecommunications carrier and the Company had entered into a final interconnection agreement.
- 56) **Access to Subloop** - The Company provided access to the subloop in accordance with the FCC's Collocation Rules pursuant to Parts 51.321 and 51.323 of Title 47 of the Code of Federal Regulations.

Attachment C

On December 11, 2001, Ernst & Young issued an audit report related to the Company's compliance with Condition 24 of the Merger Conditions that also reported on the completeness and accuracy of eight service quality measures reported by the Company in accordance with the Business Rules. The Ernst & Young report identified certain service quality measures that were either incomplete or inaccurate for 2000 and such errors also impacted the completeness and accuracy of service quality measures related to 2001 that were filed by the Company prior to the release of the Ernst & Young report on December 11, 2001. On January 11, 2002, the Company accurately restated the following 2001 service quality measures for errors detected during the 2000 audit conducted by Ernst & Young with such report dated December 11, 2001.

- a. The Southern New England Telephone Company (SNET) improperly reported Installation Line Number 110 – Number of Orders Completed Within Five Working Days, as SNET reported the number of orders completed within three working days instead of five working days for January through September 2001 results.
- b. For Pacific Bell Telephone Company (PB) and Nevada Bell Telephone Company (NB), the service quality measures related to Installation Line Numbers 110 and 125 contained errors resulting from the improper classification of California orders as Nevada orders for January through September 2001 results. Additionally, the Company did not properly report the disaggregation of service quality results at PB and NB between MSA and non-MSA for these same measures due to a data extraction error related to the coding of wire centers for January through September 2001 results.
- c. For PB and NB, trouble reports related to certain wire centers were improperly excluded from reported results as these wire centers were not coded as MSA or non-MSA resulting in errors in the Repair – Basic Service line items 300, 301, 320 and 345 for January through September 2001.
- d. For The Ohio Bell Telephone Company, the level of disaggregation related to repair call centers, for line number 550, Answer Time Performance, was incorrectly reported for January through September 2001 due to the inclusion of abandoned calls that should have been excluded. For line number 550, Answer Time Performance, January through September 2001 results were overstated due to data retrieval errors.

Attachment C

The following error also reported in the 2000 audit also impacted results in 2001 and could not be restated due to system limitations.

- e. Southwestern Bell Telephone, L.P. (SWBT) improperly excluded service orders related to Centrex, Integrated Services Digital Network ("ISDN"), and coin for Installation Line Numbers 110, 125 and 130.

The following errors relate to the completeness and accuracy of service quality measures reported during 2001.

- f. For SWBT, the level of disaggregation related to repair call centers, for line number 550, Answer Time Performance was incorrectly reported for September 2001 due to a clerical error. This measure was accurately restated in August 2002. For SNET, the level of disaggregation related to consumer business, for line number 550, Answer Time Performance was incorrectly reported for the months of April, June, July, September, October, and December 2001 due to a spreadsheet formula error. This measure was restated in August 2002.
- g. For Ameritech Corporation (Ameritech) and SWBT, the calculation of line number 130 was incorrect as a result of the use of due dates instead of receipt date to determine pending orders greater than 30 days from the last day of the month. For PB, NB, and SNET the calculation of line number 130 was incorrect as certain orders were improperly excluded from the reported results. PB and NB data was accurately restated in August 2002 to include the improperly excluded results. SWBT and Ameritech data was restated for the months of November and December 2001 in August 2002. SNET data is not available for restatement.
- h. For Ameritech, January 2001 for Line Number 125, Percentage of orders completed by due date, was incorrectly reported for January 2001 in the state of Ohio due to a data error in Line 120, Number of orders for which installation was completed by the established due date, that is used to derive Line Number 125. This measure was accurately restated in August 2002.

SBC's Internal Controls
Assertion



Report of Management on the Effectiveness of Controls over Compliance With the Merger Conditions

Management of SBC Communications Inc. ("SBC" or the "Company") is responsible for establishing and maintaining effective controls over SBC's compliance with the conditions set forth in the Merger Conditions¹. The controls are designed to provide reasonable assurance to SBC's management and Board of Directors that SBC is in compliance with the Merger Conditions.

¹ Merger Conditions are set forth in the Appendix C of the Federal Communications Commission's ("FCC's") Order Approving the SBC/Ameritech Merger. *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999) (SBC/Ameritech Order). Condition 11 "Collocation Compliance" of the Merger Conditions requires the Company to provide collocation consistent with the FCC's Collocation Rules as defined in *Deployment of Wireline Service Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *First Report and Order* (FCC 99-48), 14 FCC Rcd 4761 (1999), as modified by *GTE Service Corporation v. FCC*, 205 F.3d 416 (D.C. Cir. 2000) ("GTE Service Corporation"), and as modified and expanded by *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98* (FCC 00-297), 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order* (DA 00-2528), released November 7, 2000 ("Waiver Order"), as modified and expanded by *Deployment of Wireline Order* (FCC 01-204), 16 FCC Rcd 15435 (2001) and collocation rules codified in 47 C.F.R. Sections 51.319 (a)2(iv), 51.321 and 51.323 as modified by GTE Service Corporation and by the waiver granted to SBC in the Waiver Order. Additionally, "Collocation Compliance" as referenced in this management report includes compliance with certain collocation-related requirements applicable only to SBC/Ameritech, which were adopted as conditions to the Commission's order modifying the separate affiliate for advanced services requirements of the Merger Conditions. *Application of Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141 and ASD File No. 99-49, *Second Memorandum Opinion and Order* (FCC 00-336), App. A, paras. 5(a), 5(b)(1), 5(b)(2), 5(c), 5(d) and 6 (rel. Sept. 8, 2000) ("Pronto Order"). As a result of the court's ruling in *ASCENT v. FCC*, 235 F.3d 662 (D.C. Cir. 2001), the separate affiliate for advanced services requirements in the Merger Conditions, including the collocation-related and other requirements adopted in the Pronto Order, automatically sunset no later than January 9, 2002. *SBC/Ameritech Order*, 14 Rcd 11712, App. C, Para. 12c; Pronto Order, FCC 00-336, App. A, para. 9. See also, *Application of GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Section 214 and 310 Authorizations and Applications to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, Order, DA 01-1717, at para. 1, note 2 (rel. Jul. 19, 2001)(concluding that, under a comparable sunset provision in the Bell Atlantic/GTE merger, "the advanced services affiliate requirement will automatically sunset on January 9, 2002").

**Report of Management on the Effectiveness of Controls over Compliance
With the Merger Conditions – August 30, 2002**

Conditions 1, "Separate Affiliate for Advanced Services" of the Merger Conditions is separately reported on by management and is not included in this report at the direction of the FCC. The portion of Condition 11 related to compliance with the collocation-related requirements outlined in the Pronto Order, as defined in footnote one of this report ("Pronto Collocation Requirements") will be the subject of a separate attestation engagement report by Ernst & Young and is also not included in this report.

Additionally, management of SBC is responsible for reporting accurate and complete data related to the reporting of eight service quality measurements calculated under the Business Rules² for the year ended December 31, 2001. Management is also responsible for establishing and maintaining effective internal controls for reporting accurate and complete service quality measures calculated under the Business Rules.

There are inherent limitations in any control, including the possibility of human error and the circumvention or overriding of the controls. Accordingly, even effective controls can provide only reasonable assurance with respect to the achievement of the objectives of controls. Further, because of changes in conditions, the effectiveness of controls may vary over time.

SBC has determined that the objectives of the controls with respect to compliance with the Merger Conditions are to provide reasonable, but not absolute, assurance that compliance with the Merger Conditions has been achieved. Additionally, SBC has determined that the objectives of the controls with respect to reporting accurate and complete service quality measures in accordance with the Business Rules are to provide reasonable, but not absolute, assurance that compliance with the Business Rules has been achieved.

SBC has assessed its controls over compliance with the Merger Conditions, exclusive of Conditions 1, in relation to the criteria set forth in the Merger Conditions. Based upon this assessment, except for the effect of the control deficiencies described below related to Conditions 3, "Advanced Services OSS", 5, "Loop Conditioning Charges and Cost Studies", 7, "Carrier-to-Carrier Performance Plan", 11, "Collocation Compliance", and 15, "Carrier-to-Carrier Promotions: Resale Discount" SBC maintained, in all material respects, effective controls over compliance with the Merger Conditions during the Evaluation Period³ based on the criteria set forth in the Merger Conditions. Additionally, SBC has assessed its controls over reporting accurate and complete service quality measurements in accordance with the Business Rules. Based upon this assessment, except for the effect of the control deficiencies described below, SBC maintained, in all material respects, effective controls over reporting accurate and complete service quality

² "Business Rules" refers to the criteria agreed to by the Company and the FCC staff on August 13, 2001 for reporting additional service quality results. These Business Rules are documented at <https://clec.sbc.com/clec/unrestr/custguide/clecarms/cfm> and replace the installation and maintenance section of the NARUC White Paper reporting requirements of Condition 24.

³ The Evaluation Period is January 1, 2001 through December 31, 2001.

**Report of Management on the Effectiveness of Controls over Compliance
With the Merger Conditions – August 30, 2002**

measures in accordance with the Business Rules during the Evaluation Period based on the criteria set forth in the Business Rules.

The processes used to provide certain discounts required by Conditions 3, and 15 during the Evaluation Period did not include controls sufficient to verify that all eligible and requested discounts by competitive local exchange carriers ("CLECs") were provided within the established time frames as specified in the Merger Conditions. The Company is completing the retroactive issuance of discounts and appropriate interest. In addition, the Company has established procedures such as monitoring that contract rate changes are properly reflected in the billing system and has allocated additional resources towards ensuring that discounts are applied timely. In addition, the systems used by SWBT to process xDSL loop orders did not include controls sufficient to ensure that all charges for loop conditioning were in accordance with the requirements of Condition 5. However, the Company detected and corrected the system error during the Evaluation Period.

The processes used to produce the performance measurements for Condition 7 during the Evaluation Period did not include requisite controls over some data input functions, some detection processes, and certain system controls. This contributed to the need to restate certain data and modify certain performance measurements on a prospective basis during the Evaluation Period.

Controls have been implemented to manage the integrity of the monthly performance measure production process and performance data. Change Management Processes have been made to analyze, plan, and control implementation of proposed changes to the systems, processes and documentation supporting the creation and reporting of Performance Measurements.

Broad categories for controls implemented include:

- Implementation of a formalized process to control the development of and changes to programming code.
- Subject matter experts (SMEs) review data at each stage of production. All data must be approved by the SMEs before moving to the next process.
- Results are validated against previous data (trend analysis).
- Results are reviewed to ensure that transitional changes were implemented properly.
- All potential changes in posted data is reviewed and approved by a control group.
- For manual data, all data received is reviewed monthly to ensure it is reasonable.
- Website data is validated to ensure that all measures are reported and that statistical tests are properly computed.

The Company continues to perform and improve its quality control processes⁴.

⁴ The Company has requested further guidance from the FCC regarding the process to adjust voluntary payments to the U. S. Treasury for instances where performance data was restated. Upon receipt of

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The processes used to ensure compliance over Condition 11, the FCC's Collocation Rules, did not include controls sufficient to verify that the Company posted updates to the Internet site indicating all premises that are full within the required 10-day period, or to verify the Company removed offices from its Internet site in a timely manner when space became available, or to verify that the Company notified requesting carriers in a timely manner whether their physical collocation requests could be accommodated, or to ensure the Company filed detailed floor plans with state commissions when the Company denied a physical collocation request due to space limitations. SBC has assessed its internal controls, and has implemented enhancements to strengthen the processes involved in both the Internet site postings and CLEC notifications. Additional training has also been conducted to ensure future postings and notifications are made on a timely basis. SBC also modified its floor plan filing policy in May 2001 to submit floor plans to state commissions for all space denials, regardless of whether or not the state commission required them to be filed. The process used to bill collocation charges did not include certain controls to ensure the complete accuracy of billing to nonaffiliated telecommunications carriers and to ensure affiliated and nonaffiliated carriers are billed timely. SBC has assessed its internal controls, and has implemented process changes, such as enhancing procedures to facilitate timely and accurate updates of billing tables for changes in applicable rates, improving contract administration procedures for cases in which CLECs order products that are not included in their interconnection agreement, and establishing new billing validation processes.

The processes used to report accurate and complete service quality measures in accordance with the Business Rules did not include controls over some data input functions, some detection processes, and certain system controls. This contributed to the need to restate certain service quality measures and modify certain service quality measures on a prospective basis during the Evaluation Period. The Company continues to perform and improve its quality control processes.

Additionally, the processes used to ensure the annual compliance report filed in accordance with Condition 26 did not ensure that the Company reported noncompliance related to Conditions 3 and 5 for SWBT as well as Condition 11 related to the submission of detailed floor plans or diagrams of any premises where the Company claims that physical collocation is not practical because of space limitations.

guidance from the FCC, the Company will implement a process in accordance with the guidance to adjust voluntary payments to the U. S. Treasury for instances where performance data is restated.

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